BEFORE

THE PUBLIC SERVICE COMMISSION OF

SOUTH CAROLINA

DOCKET NO. 92-010-G - ORDER NO. 92-1029

DECEMBER 4, 1992

IN RE: United Cities Gas Company - Annual Review of the Purchased Gas Adjustment and Gas Purchasing Policies.	))))	ORDER

On October 16, 1991, the Public Service Commission of South Carolina (the Commission) issued its Order No. 91-927, which requires an annual review of the Purchased Gas Adjustment and Gas Purchasing Policies of United Cities Gas Company. Commission Order No. 91-927 requires the Commission Staff to make an annual audit of the Purchased Gas Adjustment and Purchasing Policies of United Cities Gas Company, report to the Commission the results of Staff's audit, and make the results available to the Company, and to the Consumer Advocate upon completion. The Staff has reported to the Commission the results of Staff's audit as ordered, and has made available the results of said audit to the Company, and to the Consumer Advocate. The matter comes before us for disposition.

By letter dated June 26, 1992, the Executive Director required United Cities to publish at the Company's expense, on or before August 14, 1992 a Notice in newspapers of general circulation in the affected area one time. Further, the Executive Director requested that the Company furnish, at Company expense, by bill insert or otherwise, a Notice to each customer, and to provide a certification that the notification had been furnished. By letter to the Executive Director, the Company made the requested certifications. No protests, requests to intervene, or motions were received prior to the return date.

The provisions of Order No. 91-927 state that if Staff takes no exception to the audits, then the Commission will decide if a hearing is necessary on a particular company. Staff took no exception to the audit in the present case, although Staff did have several recommendations to make. Order No. 91-927 also states that the Staff, the Company and the Consumer Advocate may make such motions as they shall deem fit, if appropriate. No motions were received from any party in this Docket. The Commission believes that it may therefore rule on Staff's recommendations without a hearing and will do so as follows:

FINDINGS OF FACT AND CONCLUSIONS OF LAW

1. A net balancing adjustment of ($11,290) and ($0.0005) per therm was computed by the Staff. According to the Staff, this represents an over-recovery for the twelve months ended June 30, 1992. This is derived from the following information:

a. Total gas costs for the period were $5,083,711. The was calculated for the twelve months under review with demand costs of $2,261,934 and commodity costs of $2,991,732. From these amounts, storage injections of ($5,546,028) were deducted and storage withdrawals of $376,073 were added, for a total gas cost for the period of $5,083,711.

b. Total costs recovered from direct customers were computed to be $2,106,877 for the twelve months ended June 30, 1992, based on actual therm sales by month of the direct industrial class times the actual billed gas cost.

c. Included is cost recovered through the PGA. It is a fixed cost component (demand and storage) for the direct industrial class of customers times the actual therm sales. Also included is the most current PGA factor, demand and commodity (times the actual therm sales for residential and commercial customers). For the twelve months ended June 30, 1992, direct sales cost recoveries were $837,792. Residential and commercial costs recoveries, including commodity costs, were $1,357,405, for total cost recovered through the PGA of $2,195,197.

d. During the period under review, the Company received supplier refunds of $454,650. The Company is requesting Commission approval to return these amounts to ratepayers as part of the over/under collection for the period under review. The Commission computed interest on supply or refunds at the rate of 8.75%, totaling $17,503 for the twelve months ended September 30, 1992.

2. It is Staff's opinion that the balance at June 30, 1992 of ($11,290) is accurately stated and fairly represents in all material respects the over-collection by the Company for the twelve months ended June 30, 1992, and that the proposed decrement of ($0.0005) should return the over-collection to the ratepayers during the twelve month period following its implementation. The Commission adopts the Staff position in this regard.

3. The Gas Department of the Commission Staff has made a review of the Purchased Gas Adjustment and Purchasing Policies of United Cities Gas Company. The PGA mechanism is trued-up each year based on the twelve-month period ending June 30. The true-up calculates the amount by which the revenues recovered by the Company under this PGA mechanism were greater or less than the actual cost of gas sold by the Company during such a period. Any over or under recovery is either subtracted or added to the PGA costs to be recovered by the Company during the following twelve month period. The Commission Staff audits this balancing adjustment each year to insure that the Company has collected its actual gas costs, no more or no less. The Gas Department, along with the Accounting Department Staff, analyzed all the differences in gas costs incurred versus gas costs recovered which were recorded in Account No. 186, Deferred Gas Costs, for the twelve month period ending June 30, 1992. The Gas Department verified that the gas costs recorded on the Company's books was correct compared to supplier invoices. The Gas Department, in its review of United Cities gas purchases, analyzed the demand entitlements

that the Company has with its suppliers versus the demand entitlements the Company has with its firm customers, analyzed the contracts the Company has with its suppliers to ensure both price and flexibility, analyzed the storage capabilities the Company has to provide for balancing of natural gas purchases and providing for the purchasing and storage of lower cost natural gas supplies in the summer months. The Gas Department's position with regard to the Company's operation of PGA for the period ending June 30, 1992, is that the PGA was operated in compliance with Commission Order No. 89-871, and that with the many changes taking place in the natural gas industry today, United Cities must continue to have the flexibility that is currently inherent in its approved PGA rider. The Commission adopts this reasoning and believes that United Cities has operated its PGA in compliance with the Commission Order for the period ending June 30, 1992.

4. The Gas Department's observations of the Company's purchasing policies indicate that United Cities has made a number of changes with regard to the purchases of natural gas supplies. As a result of the Federal Energy Regulatory Commission's approval of Transco's revised stipulation and agreement, United Cities no longer purchases gas from Transco under the traditional CD-2 rate schedule, but instead, is utilizing Transco as a transportation system. It should be noted that Transco's revised stipulation and agreement still provides for Transco to provide a merchant function for the purchases of natural gas. United Cities relies on Transco to provide for a certain amount of this service. The Gas Department

is of the opinion that United Cities has made prudent decisions in carrying out its supply requirements for meeting both its firm customers demand entitlements and for competing with the industrial alternate fuel market. United Cities' supply requirements are met through long-term contracts with producers and through purchases of gas on the spot market. United Cities' ability to make purchases of natural gas supplies and transport these supplies on the Transco system under Transco's firm transportation service has provided United Cities with the opportunity to take advantage of market-responsive priced gas which enables United Cities to minimize its gas costs. The Gas Department has taken the position that United Cities gas purchasing policies are prudent and that United Cities attempts to get the best terms available in its negotiations with suppliers and in proceedings with FERC. The Commission adopts this reasoning.

5. United Cities has an obligation to maintain adequate supplies at just and reasonable costs to serve its customers. The Gas Department believes that United Cities continues to meet this responsibility and considering the record as a whole, the Commission adopts this position.

6. It appears to this Commission that the Staff Report finding is that no changes are needed in the Gas Cost Recovery Procedure. The Commission adopts this position.

IT IS THEREFORE ORDERED THAT:

1. The proposed decrement of ($0.0005) should be, and is hereby adopted in order to return the over-collection to ratepayers during the twelve month period following its implementation.

2. That the Company's gas purchasing practices and policies are hereby found to be prudent.

3. That the Company file revised tariff sheets reflecting the findings herein within ten (10) days of the date of this Order.

4. That no changes are needed in the Gas Cost Recovery Procedure of United Cities Gas Company, and the present procedure shall continue.

5. That this Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:

Chairman

ATTEST:

Deputy Executive Director

(SEAL)